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TAGS: [ENRG](#) [ECON](#) [PGOV](#) [PREL](#) [HR](#)
SUBJECT: RUSSIAN ENGAGEMENT IN CROATIAN ENERGY SECTOR

Classified By: Rick Holtzapple, Pol/Econ, Reason 1.4 B/D

¶1. (SBU) SUMMARY: In a public address on Russian energy policy in the Balkans, the Russian DCM in Croatia openly laid out Russia's desire for increased Croatian participation in the South Stream gas pipeline, completing a deal on the Druzba Adria oil pipeline, and possible Russian takeover of the Croatian national oil company, INA. The goal, according to the Russian representative, is to tie Croatia closer to Russian energy supplies through promises of access to reliable and cheap supplies from Russia. Meanwhile, Croatia's plans for an LNG terminal on the Adriatic coast continue to stall. END SUMMARY

¶2. (SBU) Boris Medvedev, Russian DCM in Zagreb, gave a lecture November 10 describing Russian energy goals in the Balkans. His was the first public confirmation that Russia has officially offered an extension of the South Stream pipeline to pass through Croatian territory. He also confirmed that PM Kosor is scheduled to visit Moscow before the end of the year, with gas supplies and South Stream the main topics for discussion. Medvedev also expressed an interest in Croatia finalizing the Druzba Adria oil pipeline project to export Russian oil through Croatia. Finally, he confirmed rumors that Russian Surgutneftigas, 20 percent owner of Hungarian MOL, had recently attempted to gain a foothold in INA (where MOL has a majority share) through a share swap. MOL was reportedly not interested in the trade. (COMMENT: With INA reportedly half a billion dollars in debt, Surgutneftigas is clearly hoping MOL will soon want to get rid of the albatross around its neck. The GoC has not helped MOL's position by recently reneging on promises to buy out INA's gas trading business - an important component of Croatia's overall energy security, but one of INA's biggest loss makers. END COMMENT)

¶3. (SBU) Ante Markov (please protect), Chairman of the Croatian oil storage and transmission company Janaf, told us that signing on to Druzba Adria was the Russians' main condition for Croatia to join the South Stream gas pipeline network. Croatia's decision on Druzba Adria, he said, depends on a cost benefit analysis that has yet to be performed, but which will be put together soon by Janaf. (NOTE: Janaf is poised to become a key energy player in the Balkans. It controls or is building major refueling depots, which would supply refineries throughout the former Yugoslavia. It would also be the main export agent for all Druzba Adria Oil.)

¶4. (C) What role, if any, Russian energy politics plays in the slow pace of progress on the LNG terminal is unclear. According to Markov, the main reason the project has not moved forward is simply money. The Croatian consortium members -- the electricity company HEP, the gas company Plinacro, and INA -- are all deeply in debt and cannot raise their portion of the costs. Mladen Cavec, a Plinacro

executive, however, has told us on several occasions that he believes the Russians have been actively working to kill off the project and its 10 bcm/year of competition for Russian gas.

15. (C) COMMENT: Croatia takes a pragmatic approach toward Russian energy. They recognize that Russian energy supplies are indispensable (Russia currently supplies just over half of Croatian gas), but they continue to work on projects like the LNG terminal to diversify Croatia's supplies and give it greater security in the face of potential supply disruptions. The reaction of the audience at the Russian embassy lecture reflected this, with audience members' questions demonstrating little enthusiasm for increased Russian involvement in energy in Croatia, while expressing clear fears that Croatia could be caught up in another Russia-Ukraine dispute that would cut them off from needed gas supplies. However, the GoC is in a tight spot. Croatian energy companies (with the exception of Janaf) are mired in debt, there is no money to fund the \$10 billion work of projects envisioned in Croatia's energy development strategy, and Croatian citizens are beginning to worry that they will lose their cherished price controls. In this environment, Croatia is tempted by Russian offers of South Stream and the promise of cheap gas supplies. The challenge, however, will be to ensure that these deals do not undercut the parallel efforts to diversify supplies. END COMMENT.
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